

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

PA-04 RSC-01 PRS-01 SPC-03 SS-20 AID-20 COME-00

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01

OMB-01 CEA-02 SCI-06 FEA-02 INT-08 AGR-20 STR-08

DRC-01 /197 W

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O R 212232Z JAN 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 2538

INFO USMISSION OECD PARIS

C O N F I D E N T I A L SEC ONE OF TWO OTTAWA 0194

STATE ALSO FOR T/IEP

PASS AGRICULTURE

E.O. 11652: GDS

TAGS: ENRG, ECON, CA

SUBJECT: ENERGY: CANADIAN ECONOMIC FORECAST

REF: (A) STATE 7324; (B) OTTAWA 0183

BEGIN SUMMARY: CONSENSUS AMONG FORECASTERS AS OF EARLY
JANUARY SUMMARIZED BY FOLLOWING MACROECONOMIC INDICATORS FOR
1974: CONSTANT PRICE GNP, UP 4-5 PERCENT; IMPLICIT GNP
PRICE DEFLATOR, 7 PERCENT; CONSUMER PRICE INDEX, UP 8-10
PERCENT; EXPORTS, UP 8 PERCENT; IMPORTS, UP 9-10 PERCENT;
BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT, C\$1.5
BILLION; EMPLOYMENT, UP 2.5-3 PERCENT; UNEMPLOYMENT
RATE, 6 PERCENT; MONETARY AND FISCAL POLICIES, MAINLY
NEUTRAL. FORECASTS ARE HIGHLY TENTATIVE AND COULD
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CHANGE RADICALLY IF U.S. OUTLOOK DETERIORATES IN FACE

OF ENERGY CRISIS BEYOND FIRST HALF OF YEAR. END SUMMARY.

1. CANADA'S POSITION DIFFERS FROM THAT OF OTHER INDUSTRIALIZED COUNTRIES AFFECTED BY THE ENERGY CRISIS IN THAT IT IS NOMINALLY SELF-SUFFICIENT IN OIL. DOMESTIC OIL PRICES ARE "VOLUNTARILY" FROZEN AND HIGHER COST OF OIL IMPORTS WHICH TAKE PLACE TO OVERCOME REGIONAL DISTRIBUTION PROBLEMS IS OFFSET BY HIGHER PRICES (ACHIEVED THROUGH IMPOSITION OF EXPORT TAXES) CHARGED ON EXPORTS OF CANADIAN OIL. THE EFFECTS, THEREFORE, OF THE CRISIS ON THE EXPORT-ORIENTED CANADIAN ECONOMY DURING 1974 WILL BE CAUSED INDIRECTLY, MAINLY BY DISLOCATIONS IN THE U.S., ITS MAJOR TRADING PARTNER. ALL FORECASTERS HAVE SCALED DOWN PROSPECTS FOR THE YEAR BECAUSE OF THE CRISIS, BUT EVEN THE MOST PESSIMISTIC PROVIDES FOR REAL GROWTH OF BETWEEN 3.5 AND 4 PERCENT. MOST FORECASTERS PREDICATE THEIR ANALYSES ON ASSUMPTION THAT OIL BOYCOTT ON U.S. WILL END DURING THE FIRST HALF OF THE YEAR. THE TORONTO GLOBE AND MAIL ASSEMBLED VIEWS OF BANK AND RESEARCH INSTITUTION FORECASTS IN AN ARTICLE PUBLISHED LAST WEEK. INDIVIDUAL VIEWS BY OTHER ECONOMISTS DO NOT DIFFER SUBSTANTIALLY. FOLLOWING PARAGRAPHS, THEREFORE, REPRESENT ESTIMATES BASED ON CONSENSUS PUBLIC AND PRIVATE SECTOR FORECASTS. FOR SUBSEQUENT WEEKLY UPDATES, WE WILL CONTACT VARIOUS INSTITUTIONS FOR ELABORATION FOR INDIVIDUAL COMPONENTS.

2. GNP: IN CONTRAST WITH PREVIOUS TWO YEARS WHEN GNP RISES WERE PACED BY GROWTH IN CONSUMER EXPENDITURES, FORECASTERS AGREE THAT IN 1974, GNP ADVANCES WILL DEPEND ON EXPECTED BOOM IN BUSINESS INVESTMENT IN NEW PLANT AND EQUIPMENT. ORIGINALLY PREDICTED AT 21 PERCENT FOR YEAR, IT IS NOW BELIEVED THAT BUSINESS INVESTMENT WILL RISE BY 15 TO 18 PERCENT BECAUSE OF EXPECTED MATERIALS SHORTAGES. (SHORTAGES ARE NOT ATTRIBUTED TO ENERGY CRISIS BUT TO THE BEYOND-LONG-TERM-CAPACITY-OPERATION OF ECONOMY DURING PART OF 1973.) CONSUMER EXPENDITURES WILL RISE BY 8 TO 11 PERCENT INSTEAD OF 14-15 PERCENT IN 1973. (DECLINE IN PROJECTED OUTLAYS FOR DURABLES, CONFIDENTIAL

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CHIEFLY AUTOMOBILES, WILL BE RESPONSIBLE.) GNP EXPECTED TO RISE BY 11 TO 12 PERCENT IN CURRENT NT PRICES. WITH GENERAL AGREEMENT ON A GNP PRICE DEFLATOR OF 7 PERCENT, FORECASTERS DIFFER ON ESTIMATES OF REAL GROWTH WITH THE MOST OPTIMISTIC ESTIMATES AT 5 PERCENT; CONFERENCE BOARD OF CANADA PREDICTING 4 PERCENT. IF THERE NO PROSPECT OF EASING OF U.S. ENERGY

CRISIS BY END OF FIRST QUARTER (E.G. ANNOUNCEMENT OF
END OF OIL BOYCOTT), IT IS BELIEVED THAT FURTHER
EROSION IN REAL GROWTH WILL TAKE PLACE IN CANADA.
HOWEVER, WE HAVE SEEN NO ESTIMATES BELOW 3.5 PERCENT.

3. INFLATION: WHILE THERE GENERAL AGREEMENT ON LEVEL
OF OVERALL DEFLATOR, ESTIMATES OF INCREASE IN CONSUMER
PRICE INDEX FOR 1974 VARY, WITH AVERAGE JUST OVER 8
PERCENT; ROYAL BANK ESTIMATE OF 10 PERCENT IS THE MOST
PESSIMISTIC. ONE OTTAWA ECONOMIST ASSERTS THAT EACH
\$3-PER-BARREL INCREASE IN PRICE OF IMPORTED CRUDE WOULD
ADD AT LEAST TWO-THIRDS OF A PERCENTAGE POINT TO ANNUAL
CPI INCREASE. (NOTE: WHILE DOMESTIC OIL PRICES ARE
FROZEN, IMPORTERS HAVE BEEN ALLOWED TO PASS ON HIGHER
COSTS. THIS HAS RESULTED IN SIGNIFICANT PRICE DISPARITY
BETWEEN EASTERN AND WESTERN CANADA WHICH WILL BE ONE OF
PRIORITY ISSUES AT JANUARY 22-23 FEDERAL-PROVINCIAL
ENERGY CONFERENCE.)

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OTTAWA00194
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Film Number: n/a
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740126/aaaaayiv.tel
Line Count: 133
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 74 STATE 7324, 74 OTTAWA 0183
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 11 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 APR 2002 by boyleja>; APPROVED <12 JUL 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: CANADIAN ECONOMIC FORECAST
TAGS: ENRG, ECON, CA
To: SECSTATE WASHDC OECD PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005